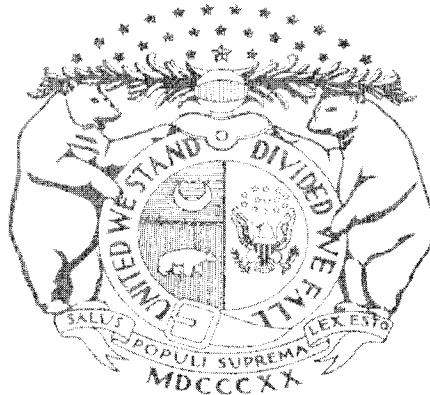


REPORT OF  
PRE-LICENSING EXAMINATION

Farmers National Title Insurance Company

AS OF

February 15, 2006



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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March 7, 2006  
Jefferson City, MO

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your financial examination warrant, a pre-licensing examination has been made of the records, affairs and financial condition of

**Farmers National Title Insurance Company**

hereinafter referred to as "Farmers National" or as "the Company". Its main administrative office is located at 1207 West Broadway Street, Broadway Street Office Park, Building 4, Suite C, Columbia, Missouri, 65203 and its telephone number is (573) 442-3351. This report of the pre-licensing examination, which commenced on January 19, 2006, and was finalized on February 16, 2006, is respectfully submitted.

**SCOPE OF EXAMINATION**

Procedures

This pre-licensing examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed. Financial information as of February 15, 2006 was

evaluated during this examination.

## **HISTORY**

### General

Farmers National Title Insurance Company was organized on September 8, 2005, and received a certificate of incorporation from the Missouri Secretary of State on October 26, 2005. The Company applied for a certificate of authority to operate as a title insurance company under Chapter 381.011 to 381.241 RSMo. The Company is a wholly owned subsidiary of Farmers National Title Holding Company, a Missouri Corporation. David Forrest Atkins, of Columbia Missouri, is the majority owner of the holding company stock.

### Capital Stock

Pursuant to its articles of incorporation, the Company is authorized to issue up to 400,000 shares of common stock with a par value of \$1.00 per share. As of February 15, 2006 all of the authorized shares had been issued. The Company shall commence business with a paid-in capital of \$400,000 and a paid-in surplus of \$674,625.

Pursuant to Section 381.041 RSMo the Company must have capital of at least \$400,000 and surplus of at least \$400,000 in order to obtain a certificate of authority. The Company meets these requirements.

### Management

The articles of incorporation call for the initial board of directors to consist of nine members; thereafter the number of directors shall be not less than nine (9) nor more than twenty-one (21)

persons. The directors serving as of the examination date are as follows:

<u>Name</u>	<u>Principal Occupation/Profession</u>
Mr. David F. Adkins	Real Estate Development, Banking
Mr. Stephen C. Babbitt	Title Insurance Agent
Mr. Bradley R. Beaird	Real Estate Investment
Mr. Matthew Davis	President, Anchor Title
Ms. Cara L. Detring	Attorney
Mr. Michael A. Holden	President, Guaranty Land Title Insurance, Inc.
Mr. Sidney K. Holden	Real Estate Title Examiner
Mr. William J. Lloyd, Jr.	Sr. Vice Pres., Premier Bank
Mr. David A. Townsend	President, Farmers National Title Insurance Co.

The officers serving as of the examination date are as follows:

<u>Name</u>	<u>Office</u>
Mr. David A. Townsend	President
Mr. David F. Atkins	Secretary
Mr. Michael A. Holden	Treasurer

#### Conflict of Interest

All officers, directors, and key employees are required to submit conflict of interest disclosure statements annually.

### Corporate Records

The Company's Articles of Incorporation have been approved by the Missouri Attorney General's Office. The Secretary of State's Office Issued a Certificate of Incorporation on October 26, 2005. The Company's bylaws have been reviewed, and nothing unusual was noted.

## **AFFILIATED COMPANIES**

### Holding Company, Subsidiaries and Affiliates

Farmers National Title Insurance Company is a member of an insurance holding company system as defined by Section 382.010 RSMo (Insurance Holding Companies - Definitions).

Pursuant to Section 382.100 RSMo (Insurance Holding Companies - Registration), every insurer that is subject to registration shall file a holding company statement within fifteen days after it becomes subject to registration and annually thereafter by March first.

The Company submitted an Insurance Holding Company System Registration Statement with its application.

### Organization

The following summary illustrates the ownership and affiliates of the company:

\*Farmers National Holding Company – Parent

Farmers National Title Insurance Company - wholly owned

\*60% - Owned by David F. Atkins

\*No other person owns 10%

\*The remainder owned by various other officers and directors.

### Intercompany Transactions

None.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is insured by policies of corporate risk coverage including a financial institution bond with a limit of \$1,000,000. Other forms of coverage include commercial general liability and commercial umbrella & excess umbrella.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

The Company offers its employees standard benefits and pension plan options.

## **STATUTORY DEPOSITS**

### Deposits with the State of Missouri

The Company is required to maintain funds of \$400,000 to meet the statutory deposit requirements of Section 381.051 RSMo. Funds deposited with the Missouri Department of Insurance as of February 15, 2006 were as follows:

<u>Type of Security</u>	<u>Par Value</u>
U.S. Treasury Notes	<u>\$420,000</u>

### Deposits with Other States

There are no deposits with other states.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

The Company will be authorized to write title insurance only. Farmers National Title will operate with a narrow focus on servicing small to midsize title agents in Missouri and the Midwest, that they believe are currently underserved by the national underwriters.

### **Policy Forms and Underwriting Practices**

The Company has submitted policy forms to the Department for approval. Proprietary online policy-generating systems will be employed to streamline underwriting, claims services, and the accounting processes.

## **REINSURANCE**

The Company has a comprehensive reinsurance program comprised of multiple agreements. Quota share coverage will begin on the first dollar at a seventy (70) percent share on policies up to \$200,000. Coverage percentages increase at various other levels excess of \$200,000; with the Company's ultimate net retained risk on any single policy limited to \$200,000.

## **ACCOUNTS AND RECORDS**

All accounting information will be processed via the Company's own proprietary systems. The Company has retained Landers, Weiss & Co., LLC, of Columbia, Missouri as its independent auditor and appointed Milliman Inc., for actuarial services.



## FINANCIAL PROJECTIONS

The Company provided pro-forma financial statements projecting net operating losses and decreasing surplus through the first four operating years before results turn profitable in year five. These estimates appeared reasonable. Based on these financial projections, the Company agreed to make further capital infusions of \$50,000 for each of the next eight quarters beginning with the 2<sup>nd</sup> quarter of 2006. Depending on the performance of the Company, one or more of the last four capital infusions may be waived by the Department.

## BALANCE SHEET

The balance sheet was prepared by the Company and assets were verified as a part of this examination.

**As of February 15, 2006**

<b>Assets</b>	
Bonds	\$ 424,625
Cash	<u>650,000</u>
Total Assets	<u>\$ 1,074,625</u>
<b>Liabilities</b>	
Payable to parent, subsidiaries and affiliates	<u>\$ 0</u>
Total Liabilities	<u>\$ 0</u>
<b>Stockholders' Equity</b>	
Capital Stock	\$ 400,000
Additional Paid-In Capital	674,625
Retained Earnings	<u>0</u>
Total Stockholders' Equity	<u>\$ 1,074,625</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,074,625</u>

## **GENERAL COMMENTS AND RECOMMENDATIONS**

Financial Projections – Page 7

The Company is required to make further capital infusions of \$50,000 for each of the next eight quarters beginning with the 2<sup>nd</sup> quarter of 2006.

## **SUBSEQUENT EVENTS**

None.

## **CONCLUSION**

It is recommended that Farmers National Title Insurance Company be issued a certificate of authority to transact business as a title casualty insurance company in accordance with Chapter 381 RSMo.

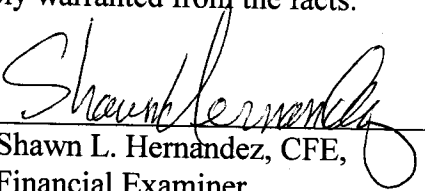
## ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of the Company during the course of this pre-licensing examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri )  
County of Cole ) ss

I, Shawn L. Hernandez, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as found reasonably warranted from the facts.

  
Shawn L. Hernandez, CFE,  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 8<sup>th</sup> day of March, 2006.

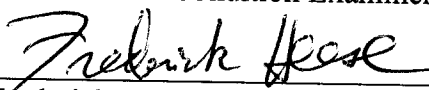
My commission expires:

March 4, 2008

  
Kathryn Randolph  
Notary Public

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
Frederick Heese, CPA, CFE  
Audit Manager  
Missouri Department of Insurance